



U.S. Department of Housing and Urban Development
Office of Public and Indian Housing

Special Attention of:

Secretary's Representatives;
State and Area Coordinators;
Directors, Offices of Public Housing;
Public Housing Agencies Administering
Section 8 Programs.

Notice PIH 98-12 (HA)

Issued: February 13, 1998

Expires: December 31, 1998

Cross References:

Subject: Renewal of Expiring Contracts in the Section 8 Rental Certificate and Rental Voucher Programs during Fiscal Year 1998

A. Purpose: This Notice provides instructions and guidance to Public Housing field offices for replacing rental certificate and rental voucher funding increments expiring between October 1997 and December 1998.

This Notice **does not** apply to renewal of expiring Moderate Rehabilitation (Mod Rehab) funding increments or Housing Assistance Payments Contracts (HAPs). This Notice also **does not** apply to Offices of Native American Programs, and expiring Section 8 contracts administered by Indian Housing Authorities (IHA). IHA administered Section 8 contracts which expire on or after September 30, 1997, will not be renewed, pursuant to the Native Americans Housing Assistance and Self Determination Act of 1996.

This Notice supersedes Notice [PIH 97-1](#), issued January 15, 1997. Please review the instructions in this Notice carefully, as the instructions for processing Fiscal Year (FY) 1998 renewals have changed substantially from instructions in Notice 97-1.

B. Background: During FY 1997, all rental certificate and rental voucher funding increments expiring through September 30, 1997, were either renewed or extended for a one year (12 month) term. Also during FY 1997, Annual Contributions Contract (ACC) reserves for most Housing Agencies (HAs) were reduced significantly by the recapture of excess reserves.

C. Basic Strategy for FY 1998 Renewal Funding: The Department's objective is to ensure continued assistance to HAs with expiring contracts, and to the owners and families they serve. To achieve this objective, renewal funds have already been assigned to support the renewal of October, November, and December 1997 expirations.

For funding increments expiring in October, November, and December 1997; and calendar year 1998, January through December, Public Housing field offices will use HUDCAPS Reservation Pricing to calculate renewal costs. Fund assignments for these renewals will be based on an estimate of funding requirements, calculated using actual per unit cost data from HUDCAPS. Public Housing field offices will then use HUDCAPS to reserve and contract the renewal funds based on instructions in this Notice and any supplemental instructions included in the fund assignment.

D. Renewal Procedures: The following procedures will be used for renewing expiring rental certificate and rental voucher contracts during FY 1998.

1. Identify Expiring Funding Increments: Use HUDCAPS report A75QPA03 (Expiring Contracts - Program Based) to identify expiring funding increments for the period from October 1, 1997 through December 31, 1998.

2. Calculate Funding Requirements: Use the Reservation Pricing feature of HUDCAPS to calculate renewal funding requirements for the expiring funding increments. Please refer to the HUDCAPS Quick Reference Guide, dated August 1996, for step-by-step instructions. Relevant sections include:

Creating a New Funding Increment Number, p. 11;

Pricing a Renewal Funding Increment with a Single Fair Market Rent, p. 13; and

Pricing a Renewal Funding Increment w/ Multiple Fair Market Rents, p. 15.

Users should also refer to "**Reservation Pricing Procedures for HUDCAPS**" which was distributed in August 1997 for the distance learning training. This document can be downloaded from HUDweb at

<http://hudweb.hud.gov/po/p/systems/hudcaps/resprice.htm>.

Tenant contribution data is periodically loaded into HUDCAPS from the Multifamily Tenant Characteristics System (MTCS). While MTCS data is improving in both accuracy and completeness, it must be reviewed for reasonableness. If tenant contribution data is not displayed on the Reservation Pricing Table (REST), or if the data displayed does not appear reasonable, Public Housing field offices should enter data based on discussions with the affected HA or data taken from current budgets.

3. Reservation Pricing Variables: The lower right portion of the REST screen displays six variables used in reservation pricing calculations. Users must review these variable to ensure that they are correct, and edit as necessary.

Funding Term: This value is brought forward from the Create New Funding Increment window and should not need to be edited on REST. For renewals of funding increments expiring from October 1, 1997, through December 31, 1997, the Funding Term will be **15 months**. For funding increments expiring in calendar year (January through December, 1998), the Funding Term will be **12 months**.

Administrative Fee: 7.50% of 2 Bedroom FMR. The default value is stored on the PIH Section 8 Options Table (PIHO) and should not need to be edited by the user.

Preliminary Fee: \$0 per new unit: The default value is stored on PIHO and should not need to be edited by the user.

Inflation Factor: 0.00 %: The default value is stored on PIHO and should not need to be edited by the user. FY 1998 Fair Market Rents, as published in the September 26, 1997 Federal Register, have been loaded into the Fair Market Rent table (FMRT) in HUDCAPS.

Contribution: 0% percent of income: This field is not currently used in reservation pricing calculations.

Calculate Price for 92% of Total FMR. Reservation Pricing defaults this field to 100%. **The user must edit this field on each REST screen, then click on Actions and Change.** For October and November 1997 renewals, this variable was 94%. However, an analysis of per unit cost data residing in Reservation Pricing indicates many HAs are over-funded at 94% of the FMRs. Please review fund assignments carefully for instructions on setting this variable for future renewals. As this Notice is being drafted, the factor is expected to be 92% for the balance of FY 1998.

4. Verify Adequacy of Funding: The funding amount calculated by Reservation Pricing may be less than the current per unit costs in a few cases. This is most likely in areas where average contract rents are very close to the FMRs. Public Housing office staff should compare the calculated renewal cost per unit to the actual cost per unit for the most recently completed HA fiscal year, inflated by 2.5% per year to FY 1998, to ensure that renewal funding will be sufficient to cover actual costs. For example, if the last closed year-end settlement statement is FY 1997, the actual cost per unit must be inflated by 2.5%. Public Housing field offices may increase the percentage of FMR as needed, up to 100% to obtain a renewal funding level sufficient to cover actual costs.

5. Verify Availability of Funds: Renewal funds will be assigned to Public Housing offices via form HUD-185. Fund assignments are entered in the Program Accounting System (PAS) and are sent to HUDCAPS from PAS through a systems interface. Public Housing offices must verify the availability of renewal funds in HUDCAPS before attempting to reserve funds. Please refer to the HUDCAPS Quick Reference Guide for step-by-step

instructions. See “Reviewing the Available Budget” on page 9.

6. Reserve Renewal Funds: After calculating renewal requirements and verifying availability of renewal funds, Public Housing field offices must reserve the funds in HUDCAPS. HUDCAPS approvers must review the data on REST before the reservation document (RV) is created. If the reservation document is created before a pricing error is discovered, the REST record cannot be corrected. REST records that are erroneously reserved may be deleted as follows:

- a. Cancel the reservation and delete the reservation document from the document listing. Overnight processing will remove the document from the document listing by the subsequent day.
- b. Access the REST record that was deleted from the document listing. Change the pricing status from “reserve” to “delete all”. Select “actions change”. This deletes the previously reserved REST record.

Please refer to the HUDCAPS Quick Reference Guide for step-by-step instructions. Relevant sections include:

Creating a Reservation That Has Been Priced, p. 25;

Approving a Reservation, p. 31;

Generating a Funding Exhibit, p. 33;

Creating a Contract, p. 37; and

Approving a Contract, p. 39.

Please note: In reservation pricing, it is possible for a user to move from a pricing status of Incomplete to Reserved. This is done by creating a RV document while REST shows a status of Incomplete. Please make certain that the pricing status is moved to Complete before the RV document is created to ensure that the reservation price is stored on REST. Otherwise, the BA_AMT field will remain at 0.

7. Contract Renewal Funds: After the renewal funds have been reserved in HUDCAPS, Public Housing Field Offices must prepare Consolidated Annual Contributions Contracts (CACCs) and send them to the HAs for execution. After the executed CACCs are received back from the HAs, the funds must be contracted in HUDCAPS. Financial Analysts should carefully check the contract authority and budget authority amounts on all funding

exhibits after they are printed before sending the CACCs to the HAs for execution. A recapture from an increment will change the total budget authority amount and if the Funding Increment Summary Table (FISH) is set to “system - calculation” of contract authority, the system will recalculate the contract authority incorrectly, based on the new total budget authority. If the funding exhibit shows an incorrect contract authority amount, the correct contract authority amount must be entered manually on the FISH.

E. Multiple Expirations: Some HAs may have multiple funding increments expiring at the same time. In such cases, renewal funding may be consolidated into one renewal funding increment. However, **DO NOT** combine renewal funding for increments expiring at different dates, except as provided in the next paragraph. For example, if a HA has two funding increments expiring January 31 and one expiring May 31, renewal funding for the two January expirations may be combined, but the renewal for the May expiration must be funded separately.

Exception: Renewals of funding increments may be consolidated if the following two conditions are met:

The expiring funding increments expire in **two consecutive months**; and

The increment(s) expiring in the second month have **ten or fewer units**.

F. Multiple FMR Areas: Some expiring funding increments may cover multiple FMR areas. HUDCAPS will price multiple FMR areas and add them up; however, users must manually enter the unit numbers and bedroom distribution for each FMR area.

G. Single Increment Programs: Special attention must be paid to Rental Certificate and Rental Voucher programs consisting of only one active funding increment. It is critical that renewal funding be provided for single increment programs before the increment expires.

Public Housing offices should immediately scan their Section 8 programs for any single increment programs and calculate the renewal funding requirements for those programs. Renewal funding requirements for single increment programs should be sent to Mary C. Conway, Director, Section 8 Finance Division in the Office of Public and Assisted Housing Delivery.

H. Cannot Mix Programs: The Rental Certificate program and the Rental Voucher program must be renewed separately. Rental Voucher and Rental Certificates renewals cannot be combined into a single renewal funding increment.

I. Related Funding Increment Numbers: The expiring funding increment number(s) must be entered in the Related Funding Increment boxes on the "Create New Funding Increment" screen in HUDCAPS. Ten Related Fund Increment boxes are provided to accommodate multiple expirations being combined into one renewal funding increment. It is necessary to list all expiring funding increments in order for the correct number of renewal units to be brought forward into the reservation pricing calculations.

J. Dates and Terms: Once the reservation has been approved, additional data must be entered on the Funding Increment Status Line Table (FISL). The Funding Term and Contract Term shall be 15 months for renewals of October, November, and December 1997 expirations; and 12 months for renewals of January 1998 and later expirations. The effective date, or first date of term, shall be the first day of the month following the expiration. For example, if a funding increment expires January 31, 1998, its renewal will be effective February 1, 1998.

K. Status Indicator: The status indicator on FISL must be changed from Reserved to Pending in order for the renewal funding increment to appear on a Funding Exhibit printed from HUDCAPS. Please note that this necessary step was omitted in the August 1996 printing of the HUDCAPS Quick Reference Guide.

L. Reporting Requirements: Using HUDCAPS report A75QPA03 (Expiring Contracts - Program Based), Field staff should annotate by each expiring funding increment, the related renewal funding increment number of each renewal priced in HUDCAPS. This report must be sent to the attention of Mary Conway, Director, Section 8 Finance Division, at the end of each quarter (December 31, 1997; March 31, 1998; June 30, 1998; September 30, 1998; and December 31, 1998), or as soon as renewals for contracts expiring in each quarter have been priced using the Reservation Pricing function of HUDCAPS

M. Other Matters: HAs are not required to submit applications (Form HUD-52515) or Section 213 comments for renewal funding. HAs are no longer required to routinely submit budget revisions with each contracted renewal increment. Instead, budget revisions are only necessary if the HA requires more funds than were previously approved in the current budget. Congressional notification is not required for renewals. The CACC must be prepared and executed in accordance with Notice PIH 94-29, issued May 26, 1994. A revised CACC has been prepared and will be issued shortly via PIH Notice. Once that Notice is issued, CACCs will be prepared in accordance with its instructions.

N. Anti-Lobbying Certification: If the HA receives funds exceeding \$100,000 in budget authority, the HA is required to submit Form HUD-50071, Certification for Contracts, Grants, Loans and Cooperative Agreements, certifying that it has not and will not make any prohibited payment from federally appropriated funds. In addition,

the HA is required to submit Standard Form (SF)-LLL, Disclosure of Lobbying Activities, disclosing any payment made, or agreement to make a payment, with other than federally appropriated funds for influencing or attempting to influence executive or legislative branch personnel in connection with renewal funding. These documents must be submitted to HUD with the CACC.

O. FY 1998 Budgets: Approximately 80 percent of the total PIH inventory of units will be expiring in FY 1998. As a result, in almost no instance is the current HA FY 1998 annual budget authority (ABA) the total which will be available to the HA for the year once FY 1998 renewal funding is provided. Under current policy, HAs are required to submit, and Public Housing field offices are required to review and process multiple budget revisions across the HAs' fiscal year, as renewals are contracted and additional ABA is made available. **However, beginning on October 1, 1997, HAs are no longer required to routinely submit budget revisions with each contracted renewal funding increment. Budget revisions are only necessary if the HA requires more funds than were previously approved in the current budget.**

The above policy is based upon a determination by the Office of General Counsel that Field Offices can approve budgets to fully fund an HA's program as long as the Field Office identifies in the budget approval letter to the HA that portion of the "approved" budget amount which has not yet been reserved or contracted to the HA. In addition, the approval letter should state that despite the approval of a budget, including the renewal amounts to be provided in the budget year, actual funding to an HA will be limited to that amount determined via reservation pricing and eventually placed under ACC.

The following assumptions should be used in preparing, reviewing, and approving HA budgets during FY 1998:

All expiring funding increments will be renewed; and

Renewal funding of approximately **92** percent of the ABA of the expiring increment(s), prorated for the remaining months in the HA's fiscal year after the expiration of the expiring increment(s), will be provided.

See Attachment I for an example and the procedures for projecting the amount of renewal funding which HUD will provide, including the sample language to be used in the budget approval letter to the HA.

P. Contacts: Should your staff need further assistance, they may contact the Section 8 Finance Division of the Office of Public and Assisted Housing Delivery at (202) 708-2934.

Attachment

/s/

Kevin Emanuel Marchman
Assistant Secretary
for Public and Indian Housing

FY 1998 HA BUDGETS - PROVISIONS FOR APPROVAL

The projected funding for renewal of expiring increments in FY 1998 should be calculated as 92 percent of the ABA of the expiring increment(s), prorated for the months in the HA FY after the expiration date. For example:

Available Funding for HA X for FYE 12/31/98 as of 01/01/98

FI	Units	Expires	BA	Term	ABA	Actual Avg. PUC per year ('96 YEST)
0001	20	6/30/99	600,000	60 months	120,000	5,000
0002 *	16	4/30/98	-0-	12 months	- 0 -	5,000
0003	45	6/30/98	270,000	12 months	135,000	5,000

* Increment 0002 is a contract which initially expired 4/30/97 and was subsequently extended to 4/30/98, No renewal funds were provided since the HA had sufficient reserves to support the extension.

The Financial Analyst can **approve the budget** for HA X for the following amounts:

From Increment 0001: 12 months of ABA = 120,000
 From Increment 0002: 16 unitsx4 months x \$416.666 mo. = 26,667

(The approved budget amount for the "unexpired" portion of the extension, 01/01/98 - 06/30/98, for increment 0002 was calculated using the actual PUC of \$5,000/12 months x 4 months x 16 units. This is the same formula used in the recapture process to determine the amount of funds to be left in each HA's account for funding extended contracts.)

From projected replacement for Increment 0002:
 Reserves Restricted to support Extension: \$96,000

92% x \$96,000 = \$88,320/12 months x 8 months = 58,880

From Increment 0003: 6 months of ABA = 135,000

From projected replacement for Increment 0003
 (270,000x92%)/12 months x 6 months = 124,200

Approved Budget for Annual Contributions = 469,747

Please note that an increment funded 15 years ago will have ABA substantially below current funding levels. To estimate renewal funding for 15 year contract expirations, use the reservation PUC from the HA's latest renewal /extension and apply the 92% factor. This reduced reservation PUC should be used to calculate the projected renewal amount for the expiring 15 year contract.

BUDGET APPROVAL LETTER:

The budget approval letter must include the following language:

Total annual contributions (ABA) is being approved for the amount of \$469,747. Of this amount, \$183,080 is the projected amount of renewal funding that HUD will provide for the renewal of Increments 0002 and 0003. This approval is conditional, based upon the assumption that the renewal of Increments 0002 and 0003 will provide, at a minimum, renewal funding equal to 92 percent of the current ABA for Increments 0002 and 0003. Despite the approval of this budget, which includes amounts yet to be provided by HUD, actual funding made available to the HA will be limited to that amount determined via Reservation Pricing and placed under ACC.

The HA is not required to submit a budget revision to reflect the contracted renewal of Increments 0002 and 0003 if :

1. the renewal funding provided by HUD is greater than the projected amount of renewal funding that HUD approved; and
2. the HA does not require more funds than were previously approved in the conditionally approved budget.